Payroll Tax: Holiday from Responsibility

Is the US economy over-taxed? Federal tax revenues as a percentage of GDP are at their [lowest point in forty years](http://www.cbo.gov/ftpdocs/125xx/doc12577/budgetinfographic.htm). That would be news for the economy to cheer if it were accompanied by the lowest level of government spending in forty years and fast economic growth, which of course it isn’t. The same Congressional Budget Office chart linked above shows that government spending is at its highest level as a percentage of GDP in forty years. The result is a skyrocketing national debt.

If a responsible adult saw their own fiscal position deteriorate like the US government, they would need to make some hard choices. Either they would need to get another job to raise more income for their household, or they would have to cut back on their spending. Unfortunately, very few responsible adults hold office in either political party in Washington D.C.

The pre-Christmas debate was over which party would extend the payroll tax holiday the longest. The Senate passed a bill to extend it for two months, while the House wanted a deal to extend it for a year. Both parties wanted to play the game of, “Look I’m the party that will give you free stuff!” After all, 2012 is an election year. How dare anyone want to “raise” taxes on the middle class? Temporary tax holidays do not even spur hiring or economic growth. They do drive up debt which has to be repaid with permanently higher (growth killing) tax rates.

Without much needed structural reform, in order for Social Security to be solvent for the next 75 years, the government would need [an immediate 1.6 percentage point increase in the payroll tax](http://www.cbo.gov/doc.cfm?index=12376). Instead, for the last two years we have gotten a 2 percentage point reduction in the payroll tax. Social Security and Medicare face trillions of dollars of unfunded liability and all Congress and the President can agree on is to make these two programs even more unfunded? That’s leadership?

This doesn’t bode well for universal health care. If the plan is promise free stuff to everyone, but only make “the rich” pay. The economy is in for it. No responsible politician can promise universal goodies for all without making everyone pay for them. The Europeans have trouble financing their welfare state even with broad based value added taxes. If the European debt crisis should have reminded us of anything, it is that there is no such thing as a free lunch. Politicians who promise free lunches are not deserving of political support.

Speaking of lunch, in 1984, Wendy’s asked, “[Where’s the beef](http://www.youtube.com/watch?v=Ug75diEyiA0)?” Entering 2012, we can ask, “Where’s the budget?” Here is [CBO’s budget and economic information link](http://www.cbo.gov/budget/budget.cfm). The 2012 fiscal year for the US government began October 1st, yet Congress has yet to pass a 2012 budget. This isn’t entirely new. Congress kept the government going last year with a series of continuing resolutions in order to avoid having to tell Americans what their budget was. While responsible adults would address large imbalances in their personal finances, what would you call an adult who not only racks up credit card debt, but refuses to even sit down and come up with a budget plan to deal with the issue? Not only are they not responsible, they can’t even be considered adults. At best, our government is made up of whiny babies. Lest we forget, we, the American public, elected them, so what does that say about us?

President Obama did submit a 2012 budget to Congress. The US Senate even voted on it. It failed 97 to 0. The House passed a 2012 budget. The Senate did not. If anyone is supposed to be adults in Washington, they are the senators who serve 6 year terms. Senators are supposed to be the ones who can make decisions with the long run health of the US economy in mind. So much for that.

The US government does need to address structural tax reform with lower marginal rates and fewer deductions. It also badly needs to engage in entitlement reform. It would be nice if the responsible adults in both parties (there are some on either side), could move forward with reasonable growth oriented reforms that lower the budget deficit. What better time than an election year to prove to the American public that there are adults in Washington? Sadly, I fear the year will be wasted with each party whining that the other party wants to destroy America. Much like the long suffering Cubs fans, we may be forced to lament, “We’ll get them next year”.

Note: The Capitalism Today Blog will return in late January. I’m off to teach study abroad in Australia. At least their economy is booming.